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NATIONAL INTELLIGENCE DAILY CABLE

Tuesday 27 December 1977

CG NIDC 77/299C

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Approved For Release 2007/03/07 : CIA-RDP79T00975A030400010122-8

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National Intelligence Daily Cable for Tuesday, 27 December 1977

The NID Cable is for the purpose of informing senior US officials.

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EGYPT-ISRAEL: Summit Results

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[REDACTED] The initial assessment of the US Embassy in Cairo is that the summit meeting in Ismailia was less than a success for Egyptian President Sadat. Although both he and Israeli Prime Minister Begin are seeking to project a positive image of the two-day session and are pointing to upcoming negotiations at ministerial levels, the Egyptian President appeared to have had little success in modifying any significant points of Begin's comprehensive peace plan, many details of which had been published before the summit negotiations began on Sunday.

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[REDACTED] Sadat was unable to get agreement on a "declaration of principles" for which he had been holding out hope as late as Sunday night. By apparently failing to budge the Israelis on the issue of the future of the West Bank and the Palestinian Arabs, described by Sadat as the "crux of the whole problem," he has laid himself open to more criticism by Arab rejectionists and perhaps even from moderate Arabs.

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[REDACTED] The Embassy also believes that there is bound to be some disillusionment in Cairo, and that Sadat will have problems keeping up the morale of his supporters as Egypt and Israel enter into detailed ministerial negotiations in January.

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[REDACTED] US and UN representatives will be invited to take part in the Political Committee sessions, which will be held in Jerusalem at the foreign minister level. Egypt will be represented by its newly named Foreign Minister, Muhammad Ibrahim Kamil. In his early 50s, Kamil was most recently Egypt's Ambassador to West Germany. The veteran diplomat's ties with Sadat reportedly date back to the early 1940s.

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[REDACTED] The bilateral Military Committee, led by the Israeli and Egyptian Defense Ministers, will meet in Cairo. Begin indicated that the committees' negotiations will probably last for "a number of months." [REDACTED]

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**FRANCE: New Combat Aircraft**

*[REDACTED]//French aircraft designer Marcel Dassault is developing a new combat aircraft; it is the first time he has attempted such a project without obtaining direct government financial support. The French Air Force currently has no requirement or funds for the long range twin-engine multirole aircraft, called the Super Mirage 4000, and therefore does not plan to purchase it or help pay for its development. Dassault is willing to take the risks involved and is building a prototype with his own funds. He is apparently convinced he can later stimulate customer demand in France or abroad. The prototype, powered by two M-53 engines, is scheduled to make its first test flight late next year.//*

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[REDACTED] //The French Air Force already has chosen the Dassault-designed single-engine Mirage 2000 as its main combat aircraft of the future. The Mirage 4000, like the Mirage 2000, will be designed primarily as an interceptor and air superiority fighter. Unlike the Mirage 2000, however, the new aircraft reportedly will be able to perform deep strike missions while flying at low altitudes. By designing the aircraft to carry out several missions, Dassault may be restricting its capability to perform any single mission as well as its foreign competitors.//

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[REDACTED] //Dassault's aerospace firm apparently believes there will be a lucrative foreign market for the fighter when it is ready for production, probably in the early 1980s, although foreign sales of a combat aircraft type are usually dependent on its purchase by the home country's military. [REDACTED]

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[REDACTED] //Among the likely potential customers for the Mirage 4000 will be several Arab countries that have already chosen to buy earlier-model Dassault fighter aircraft. Because it is expected to have an offensive strike capability, the new aircraft probably will be especially attractive to countries seeking a plane that can attack targets behind the primary battle area.//

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[REDACTED] //Development of the Mirage 4000 benefits from the government-backed Mirage 2000 project. The two aircraft will have the same delta-wing design, similar avionics and electronic packages, and similar materials in their external structure. [REDACTED]

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#### ECUADOR: Political Coalition

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[REDACTED] *Eleven Ecuadorean political parties have agreed to form a new national front to contest the presidential election scheduled for 16 July. Besides providing organized political support for next month's constitutional referendum, the new government-backed coalition could be a major step toward derailing the presidential drive of populist candidate Assad*

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*Bucaram. Profound philosophical differences plus the difficulties in agreeing on a mutually acceptable presidential candidate, however, probably will create severe problems for the front between now and election time.*

25X1 [ ] The front announced its support for the referendum--the first step in President Poveda's plan to return to civilian rule by the end of next year--in a manifesto issued last Wednesday. Coalition support is significant because an already apathetic electorate is being encouraged to refrain from voting by three other political groupings led by the party of former President Velasco Ibarra.

25X1 [ ] The most important partners in the new political alignment are the Radical Liberals and Conservatives, two ideologically diverse parties that have been intense rivals for nearly 100 years. They are joined by nine equally divergent smaller parties ranging from staunch allies of the Conservatives to leftists of varying shades.

25X1 [ ] Other than support for the referendum, the only issues on which all these parties appear to agree at present are the importance of a return to civilian rule and the necessity of preventing Bucaram, the front-running contender, from becoming president. Although past election performance indicates that the coalition theoretically is capable of obtaining as much as 45 percent of the vote, it is now uncertain whether it can stop Bucaram, who enjoys a commanding lead.

25X1 [ ] //Two factors that could contribute to the coalition's success are government financial support, which evidently has already begun, and encouragement and assistance from key military figures.

NEW ZEALAND - USSR: Fishing Agreement

25X1 [ ] //New Zealand appears satisfied with the first round of its fishing talks with the Soviet Union. A Soviet fisheries negotiating team was in Wellington during the past week to seek fishing rights in New Zealand's 200-mile economic zone. The two sides plan to resume talks early next year.//

25X1 [ ] //The negotiators reached general agreement on the New Zealand draft. In particular, the Soviet delegation expressed readiness to accept New Zealand's regulation of fishing within the 200-mile zone.//

25X1 [ ] //Apparently the Soviets anticipate using New Zealand facilities for only routine maintenance and making major overhauls elsewhere. If the New Zealanders agree to access by Soviet fishing vessels other than those licensed to fish in the New Zealand zone, the Soviets expect to make some 80 port calls a year.//

25X1 [ ] //On the matter of flying in relief crews for the fishing vessels, the Soviets envisage about 50 flights per year, carrying about 80 fishermen per flight. They seemed amenable to a desire by New Zealand that existing commercial carriers be used for the last leg of the flights, rather than open New Zealand to the Soviet airline.//

25X1 [ ] //One unresolved issue involves two small areas of the high seas surrounded by the New Zealand zone. The Soviets are concerned that any restrictions placed on operations in these enclaves might establish precedents for similar zones elsewhere. The Soviets also question New Zealand's regulation of fishing around its South Pacific dependencies. Finally, the



Soviets have expressed some concern over New Zealand's interpretation of its 200-mile zone as an exclusive economic area for all activities. Moscow's practice has been to recognize only fishing zones.//

25X1 [ ] //The Soviet delegation leader--in an obvious ploy to increase New Zealander receptivity--said that if satisfactory arrangements were worked out, there would be no need to pursue earlier efforts to seek access to facilities in Pacific island countries. [ ]

#### WEST GERMANY: Slow Export Growth

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25X1 [ ] *West Germany's failure to reach its 1977 growth target is largely a result of its disappointing performance in exports. Early this year the government expected exports to increase 9 percent in constant prices and real GNP to rise 5 percent; actual gains will be about 4 percent and 3 percent respectively. Exports to West European and Communist countries have been particularly sluggish. Even so, the West Germans have maintained their overall share of world markets. Exports may increase a bit faster next year, although not enough to give the economy much of a lift.*

25X1 [ ] Our estimate of a 4-percent increase in real terms this year in exports of goods and services compares with the 8.5-percent rise projected earlier this year. Our estimate of a GNP growth of under 3 percent for 1977 is the result of West Germany's slowdown in export growth.

25X1 [ ] The deceleration of export growth stems from a dramatic slowdown in the growth of purchases by West European countries and an actual drop in exports to Communist markets. Slower economic growth in West European countries and the continuing hard-currency deficits of the Communist countries have been the main negative factors. The poor showing in sales to these two markets, which together absorb two-thirds of West German exports, outweighed the faster growth of exports to non-European industrial nations and developing countries, including members of the Organization of Petroleum Exporting Countries.

25X1 [ ] West Germany so far has maintained its overall share of major markets despite the export slowdown. We had expected that world trade would increase more than it has this year and that West German exports would grow somewhat faster than the world total.

25X1 [ ] Because of relatively slow domestic inflation, West Germany's international competitiveness has suffered little from the appreciation of the mark. The price-adjusted exchange rate rose only about 5 percent between the first quarter of 1976 and the third quarter of 1977, despite a nearly 20-percent rise in the value of the mark vis-a-vis a weighted average of the exchange rates of 22 trading partners. In dollar terms, West German export prices have risen roughly in tandem with those of major competitors and remain close to the average of the seven largest industrial countries.

25X1 [ ] Real growth of West German exports of goods and services should accelerate slightly in 1978 to about 5 percent. The increase will result mainly from faster import growth in other European Community countries, particularly France and the UK. We expect that the stimulative measures recently announced by London will boost British aggregate demand substantially next year. In France, consumption will be stimulated should the leftist alliance come to power next March, and investment should pick up if the current government remains in office.

25X1 [ ] Bonn recently conceded that its former 6-percent target for real growth in 1978 probably would not be realized. The Economics Ministry now has set its sights on 5-percent real export growth. We see the following trends:

- The import growth of members of the European Free Trade Association is likely to slow again in 1978. In Austria, which accounts for a third of EFTA purchases from West Germany, the government intends to curtail import growth sharply to improve the balance of payments. Sweden also will be trying to hold down imports, and Switzerland will experience another sluggish economic year.
- West German shipments to non-European industrial countries also will slow, assuming US economic growth falls off as is widely anticipated.

-- Imports next year by Communist and non-OPEC developing countries are expected to pick up only moderately, if at all. Communist countries will continue to face hard-currency constraints, and non-OPEC developing countries have persistent balance-of-payments problems.

-- Given our projection of slower expansion of import demand in OPEC countries, West Germany would have to capture a larger share of the OPEC market for the seventh consecutive year just to keep its exports to the group growing at the present rate.

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[ ] If West German export growth remains sluggish in 1978, the increase in real GNP growth will be correspondingly restrained. The economy has become increasingly dependent on exports; the ratio of exports to GNP has grown from 22 percent in 1970 to 28 percent in mid-1977. Bonn's recent announcement of revised economic forecasts included a drop in the real GNP projection for 1978--from 4.5 percent to 3.5 percent. The new, more guarded West German figures agree closely with our own.

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#### NIGERIA: Petroleum Industry

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[ ] Nigerian crude oil production probably will reach its peak by 1985 and then start to decline. Oil exports, however, could begin to decline by 1980. Liquified natural gas exports might offset some of the decline. The US now takes around 60 percent of Nigeria's oil exports, making Nigeria a close second to Saudi Arabia as a source of US petroleum imports.

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[ ] Oil output is forecast at 2.3 to 2.4 million barrels per day through 1985; current production is averaging 2.1 million barrels per day. Beyond the mid-1980s, Nigeria's oil future depends on developing new deep-water fields outside the continental shelf. The oil companies operating in Nigeria are willing to undertake the required costly investment only if there is a hefty boost in company profits.

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25X1 [ ] Company officials have agreed that the investment incentives issued by the Nigerian Government earlier this year are a step in the right direction. Under the new regulations:

- All exploration drilling costs may be written off during the year in which these expenses occur. Until now, only exploration costs of dry wells could be so treated.
- Reduced royalty payments will apply to offshore production, and investment tax credits will be granted, ranging from 5 percent for equipment used on land to 20 percent for assets used in deep sea exploration.
- The amortization period for investment expenditures has been reduced from seven or eight years to five.
- The tax rate on profits for companies not yet producing oil will be reduced from 85 percent to 67.75 percent until all pre-production costs are recovered.

25X1 [ ] The companies operating in Nigeria already are responding to the incentives. They have boosted their investment budgets substantially and will bring in at least three additional drilling rigs during the next six months. Gulf, Mobil, and Phillips are resurrecting five-year development programs, each costing several hundred million dollars. The government, however, has so far been unable to attract new firms to come into Nigeria.

25X1 [ ] Even with this renewed activity, oil production through the mid-1980s is likely to rise only slightly above the present level. In addition, an increasing share will be diverted to meet domestic demand, currently growing at about 25 percent annually. A total of more than 250,000 barrels per day will be processed at the Port Harcourt, Warri, and Kaduna refineries after the latter two come onstream during the next two years. Quantities available for export, however, will drop to last year's average of just over 2 million barrels per day.

25X1 [ ] Liquefied natural gas exports could offset some of the decline in oil exports, provided some major problems are overcome. Current plans call for building one LNG facility with a capacity of 2 billion cubic feet per day. [ ]

[REDACTED]

Nigeria could begin exporting LNG by 1982 if all the obstacles are removed within the next six months or so.

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[REDACTED] The plant and associated infrastructure is expected to cost around \$4 billion. Shell, BP, Phillips, Agip, and Elf are responsible for financing one-third of the cost, and the remaining share is to be covered by the Nigerian Government. The companies, however, are hesitant to put up their share without government guarantees of some kind. They are anticipating an unstable political environment with the return to civilian rule scheduled for 1979.

[REDACTED] The US is being counted on to take 60 to 80 percent of all LNG exported from Nigeria. The Administration's energy program, however, proposes a ceiling on LNG imports that would permit the US to purchase quantities considerably below those envisioned by Nigeria. In addition, approval by the US Federal Energy Regulatory Commission is a prerequisite for importing Nigerian LNG, and will take at least several months to obtain.

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